Property Income Fund

Fund Update
31 December 2023

For more than 20 years, the Australian Unity Property Income Fund (Fund) has blended direct properties and unlisted property trusts with listed A-REITs and cash to provide investors with relatively consistent income distributions and the potential for capital growth over the medium to long term.

17 Byres Street, Newstead, QLD

Fund Facts as at 31 December 2023

December Quarter Distribution	Unit Price	Gross Asset Value
1.25 cents per unit (CPU) (1.25 CPU September 2023 quarter)	**$0.9056** exit price (cum distribution)	**$273.22 m** ($280.25m at 30 September 2023)

Gearing Ratio	Liquidity
The Fund has no direct borrowings	**The Fund offers daily liquidity. ~**

Ratings / Awards

Recommended Lonsec Research

Zenith RECOMMENDED

Performance as at 31 December 2023

	3 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	10 yrs % p.a.	Since inception % p.a.
Distribution return	1.48	5.54	5.51	7.34	7.85	7.60	7.90
Growth return	3.28	(2.30)	0.46	(1.91)	(1.37)	0.93	(0.39)
Total return	4.76	3.24	5.97	5.43	6.48	8.53	7.51
Benchmark return	4.12	2.07	4.79	4.77	5.80	7.96	7.93

Inception date for performance calculations is 31 May 1999.
Returns are calculated after fees and expenses and assume the reinvestment of distributions. Past performance is not a reliable indicator of future performance.
The benchmark return is a composite index currently comprising: 60% MSCI/Mercer Australian Core Wholesale Property Fund Index, 35% S&P/ASX 200 A-REIT Accumulation Index, 5% Bloomberg AusBond Bank Bill Index.

Key Portfolio statistics as at 31 December 2023

Asset allocation (by value)

Asset class	$m	Portfolio %
Listed A-REITs	100.96	36.95
Direct Property	103.53	37.89
Unlisted Property	58.45	21.39
Cash and other	10.28	3.76
Total	273.22	100.00

* Includes cash and cash equivalents.

Exposure to A-REITs

Holding	$m
Australian Unity A-REIT Fund	84.03
Australian Unity Office Fund	3.97
HealthCo Healthcare & Wellness REIT	3.29
Elanor Commercial Property Fund	2.17
Carindale Property Trust	2.00
GDI Property Group	1.99
Newmark Property REIT	1.79
RAM Essential Services Property Fund	1.72
Total	100.96

Unlisted property portfolio

Holding	$m
AU Student Accommodation	16.09
Planum Footscray	11.91
AU Specialist Disability Accommodation	8.84
AU Childcare Property Fund	5.15
Waverley Gardens	4.08
Warrawong Plaza	3.93
AU Diversified Property Fund	3.63
Eildon Caboolture	3.05
AU Healthcare Property Trust	1.77
Total	58.45

Financials

	$m
Gross assets	273.22
Total debt	0.00
Other liabilities^	2.57
Net assets	270.65

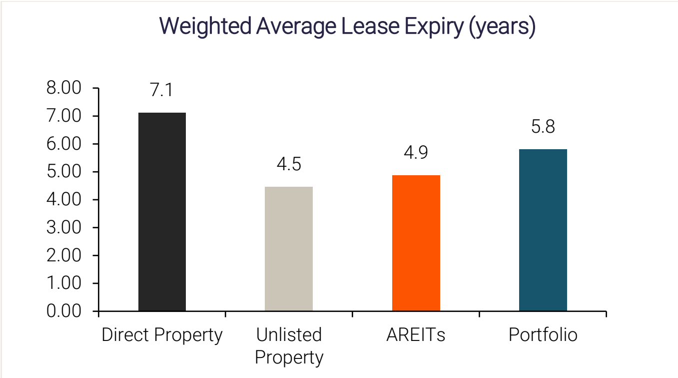
^ Other liabilities include a provision for the distribution.

Debt

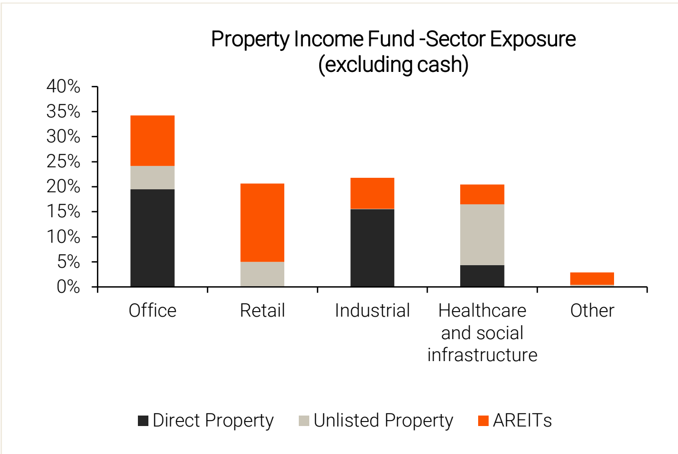
The Fund has no direct borrowings.

Liquidity

The Fund offers daily liquidity.~



Note: excludes assets under development.



Note: "Other" includes residential developers, self-storage and other listed investments. Sector weights are on an equity accounting basis.

Market commentary

While 2023 has seen a notable slowdown to prior economic growth, the Australian economy has proved resilient against the many local and overseas challenges faced over the year. The impacts of stubbornly high inflation and interest rates reaching their highest levels since 2011 has seen annual economic growth shrink from 3.8% over 2022 to a 12-month rate to September 2023 of 2.1%.

Economic growth in Australia has been supported by a strong rebound in both overseas migration and tourism levels together with ongoing low unemployment which have helped to partially offset falling consumer demand in times of challenging cost of living pressures. However conversely, such economic resilience together with services price growth and housing supply issues has led inflation in Australia to remain markedly above the RBA's desired target 2% - 3% range. While this has moderated from prior peaks, it remains above several of Australia's developed world counterparts. As a result, at its November 2023 meeting, the RBA raised the cash rate by a further 0.25%, bringing the total cash rate to 4.35% where it was held in December 2023. Positively, recent inflation data in the USA and parts of Europe has demonstrated a material reduction in inflation and while declines in Australia have lagged, the downward trend would imply we are at or near to peak interest rates. Following recent projections from the USA's Federal Reserve that they anticipate a cut in interest rates in 2024, market sentiment has pivoted somewhat to bring forward expectations of interest rate cuts, both overseas and within Australia, leading to significant equity market enthusiasm in the latter stages of 2023.

Notwithstanding the recent optimism regarding the possible end to escalating interest rates, volatility risk and market uncertainty remains. Over the short term, Australia's economic growth is forecast to remain subdued as businesses and consumers work through the current constrained growth environment. However, continued population growth and strong employment levels should act as a backstop.

Research data from Jones Lang LaSalle (JLL) indicates that the final quarter of 2023 saw muted tenant demand in the major CBD office markets of Sydney and Melbourne with negative net absorption (i.e., where take-up of office accommodation is lower than office space becoming vacant) recorded in both markets. This was most notable in the Melbourne CBD office market as vacancy levels increased from 16.2% last quarter to 18.2% in December 2023. The positive CBD office market stories remain Brisbane and Perth, which both recorded net positive absorption for the quarter and, along with the Adelaide CBD, achieved solid net adsorption for 2023. These markets have all benefited from their own respective drivers be it ongoing demand for raw materials (Perth) or elevated public infrastructure works (Brisbane) as well as being less exposed to downsizing large corporate occupiers. While Brisbane, Perth and Adelaide were less impacted by ingrained change of working habits resulting from the COVID-19 Pandemic, recent research from CBRE has highlighted that the return to the office continues to show a steady improvement over the past 12 months. In Q3 2023, the national average office attendance reached 71% of pre-COVID levels, well above the 54% recorded 12 months earlier, with mid-work week levels achieving peak attendance levels above this average in all markets excluding Melbourne. This thematic is expected to continue as corporate leaders seek to enforce requirements more stringently for staff office attendance with some companies reportedly linking office attendance to staff bonuses.

While continuing to perform well, 2023 has seen the Industrial property market cool somewhat from the remarkable performance experienced over recent years. Exceptionally low vacancy continues to limit tenant movement and will likely support rental growth over the short term, however, anecdotal evidence would suggest that some occupiers are pausing on relocation decisions until macroeconomic conditions stabilise, while the vacancy rate has increased marginally (off an extremely low base) for all major Australian markers (CBRE). Over the final quarter of 2023 JLL reports that industrial rents have continued to grow across all capital city markets excluding Perth. Despite this, the annual rate of growth experienced over 2023 has come down from the more than 25% experienced by most in 2022, to between 10%-20% in Brisbane, Sydney, and Melbourne markets in 2023. Continuing growth expectations for e-commerce in Australia, particularly from Food and Liquor operators, has seen last-mile locations continue to be highly desired with the South Sydney and Melbourne City Fringe submarkets. Capitalising on this dynamic and the limited land supply in these locations, some major landlords have turned to multistorey industrial developments with Goodman Group recently opening their first Australian offering of this kind in South Sydney.

The Australian consumer continues to face pressure from a heightened cost of living and a decline in year-on-year real wages, however recent Australian Bureau of Statistics (ABS) data shows that seasonally adjusted retail spending grew strongly in November 2023. Whether this greater-than-expected growth, reflects an advancement of traditionally elevated holiday period sales by more cost-conscious consumers remains to be seen, however it demonstrates the ongoing willingness of Australians to spend in the face of financial challenges, supported by high levels of employment and household savings levels and supported by high levels of migration. JLL data reports that rents across retail property markets remained broadly flat for the December 2023 quarter. Over the last 12 months retail property rental growth levels have been largely positive, with the larger ASX-listed centre operators recording positive re-leasing spreads amidst high occupancy levels. As tourism levels and office attendance have picked up, CBD retail property vacancy levels have declined over 2023 while prime rental growth rates have also turned positive. Like all commercial property sectors, transactional activity has been limited over 2023, however, JLL data reports that total retail property transaction volumes were the highest of the three traditional sectors at c.$5.5bn supported by additional liquidity being recorded for larger shopping centre assets.

Overall, 2023 has been a testing year for commercial real estate, with interest rates continuing to rise, inflation levels remaining elevated and structural shifts in office worker patterns creating pricing pressures and a dislocation between buyers and sellers. Somewhat inevitably, property values have come under pressure, however, despite such tribulations, real estate markets have been resilient, most notably within the living, industrial and alternative property sectors. More prudent debt management together with flexibility from lenders has to date, resulted in minimal distressed asset sales driving a softer market landing in Australia. Looking forward macro-economic uncertainty remains, however, the 2023 Institutional Real Estate Allocations Monitor notes Asia Pacific-based Institutional investors expect to increase allocations to real estate in 2024. To this end, Australia is likely to remain attractive given ongoing migration levels and a relatively positive forecast economy, while potential interest rate cuts will also likely support transactional activity towards the second half of 2024.

For the quarter ending 31 December 2023, the Australian listed property sector, as measured by the S&P/ASX 200 A-REIT Accumulation Index (A-REIT Index), returned positive 16.6% outperforming the broader equities market as measured by the

S&P/ASX 200 Accumulation Index which returned positive 8.4%. Over the year to 31 December 2023, A-REITs returned positive 17.6% compared to the broader equities market return of positive 12.4%, albeit this was somewhat skewed by the strong performance of Goodman Group (GMG) which has returned 47.7% over 2023.

For the December 2023 quarter, Fund Manager A-REITs led the sector with Charter Hall Group (CHC), HMC Capital (HMC) and Centuria Capital (CNI) all posting quarterly returns in excess of 29% as investors responded positively to the potential for future interest rates cuts. Outside of this, performance was widely strong, with several diversified property groups and large retail mall owners achieving returns of between 15.2% (RGN) and 22.2% (GPT). Alternative property sector-focused A-REITs performance was slightly more muted while industrial-focused Goodman Group (GMG) returned 18.7% over the quarter. The laggards for the period were diversified group Mirvac (MGR), residential linked Ingenia Communities Group (INA) and retail-focused HomeCo Daily Needs REIT (HDN) which returned positive 0.2%, 6.0% and 7.4% respectively.

Fund performance

The Fund provided a total return of positive 4.76% (after fees) for the December 2023 quarter. Performance was driven by returns from the Fund's listed A-REIT holdings which saw a strong rebound over the quarter. Additionally, positive returns from the Fund's investment in the Australian Unity Student Accommodation Fund were also recorded as this single asset holding experienced a valuation uplift of c. 6.8% in its most recent independent valuation (October 2023). These gains were partially offset by negative valuation movements impacting several of the Fund's unlisted managed investment holdings.

Portfolio activity for this quarter

Asset Divestments

2-10 Bliss Court, Derrimut, VIC

The Fund is pleased to announce that the settlement of the property known as 2-10 Bliss Court, Derrimut, VIC occurred on 3rd November 2023. Additionally, the settlement of the sale of the in-situ solar energy system with a third-party solar energy provider occurred on 10th November 2023.

Overall, the sale of the property together with the solar energy system equates to a total sale price of $18.80m reflecting a modest 1.9% discount to the property's most recent book value.

17 Byres Street, Newstead, QLD

Following an unsolicited approach, on 22nd December 2023, the Fund exchanged contracts for the sale of the property located at 17 Byres Street, Newstead, QLD. The agreed sale price was $11.50 million which is a 15.00% premium compared to the properties' prior independent valuation conducted in June 2023. Settlement is anticipated to occur on 28th February 2024. At the time of sale, the property was approximately one-third vacant, while leases in relation to the two remaining tenants are due to expire in April and July 2024.

91-97 Woodlands Drive, Braeside, VIC

On 29th December 2023, the Fund entered into a contract of sale for the property located at 91-97 Woodlands Drive, Braeside, VIC. The agreed sale price was $12.50 million which is in line with the properties' prior independent valuation conducted in August 2023. Settlement is anticipated to occur on 27th March 2024. The property is a single-tenanted industrial building with a lease expiring in 2041.

All three transactions, in what is generally currently described as a tough market for trading assets, may serve as an indicator of value for similarly characterised properties, while concurrently enhancing the Fund's overall liquidity and potentially positioning the Fund in an advantageous capital position to seek out investment opportunities that may arise in the coming periods.

Asset Management

134 King Street, Newcastle, NSW

The Fund is pleased to announce that conditional development approval was received on 22nd November 2023 for the extension and refurbishment of the commercial property known as 134 King Street, Newcastle, NSW. The existing asset comprises a lettable area of 1,879sqm with the development approval providing for the addition of two further floors of commercial accommodation increasing the total building area to 2,378 sqm.

Management continues to work with its development team and local market specialists to assess the most appropriate course of action for the asset to maximise returns for Investors.

Unlisted Property Investments

Australian Unity Student Accommodation Fund, Herston, QLD

The Australian Unity Student Accommodation Fund comprises the repurposed Lady Lamington heritage building within the Herston Quarter precinct. Operated by established student accommodation provider Uni-Lodge, the asset provides a total of 695 student accommodation rooms together with substantial tenant amenity and welcomed its first tenants in February 2022. Strong ongoing student demand has continued to drive room rental rate increases and as a result, the asset was independently revalued at $70.3 million in October 2023 resulting in a valuation uplift of c. 6.75% from the prior June 2023 independent valuation of $65.9 million.

Distribution

We are pleased to announce a distribution for the month of December 2023 of 0.4167 cpu. This takes the total distribution paid for the quarter ending 31 December 2023 to 1.25 cpu.

Outlook

Through its well-diversified, actively managed portfolio, we believe the Fund is well positioned to provide regular income to investors, as the market transitions through the current macro-economic environment.

The Fund continues to display its resilience due to its overall diversification across various property and tenant types. The Fund has liquid assets in excess of its minimum thresholds and does not have borrowings at the Fund level, meaning all directly owned physical properties are unencumbered.

The Property Income Fund's property sector weightings are skewed to industrial, office, healthcare, and social infrastructure property, with revenue exposed to a mix of listed and other corporates, while the Fund's retail exposure is weighted towards convenience retailing.

91-97 Woodlands Drive, Braeside, VIC

134 King Street, Newcastle, NSW (Proposed development. Source: EJE Architects)

Lady Lamington Building, Herston, QLD

Key direct property statistics as at 31 December 2023

Geographical allocation (by value)

State	No. assets	%
VIC	2	39.47
SA	2	30.98
QLD	2	22.22
NSW	1	7.34
Total	7	100.00

Sector allocation (by value)

Sector	No. assets	%
Office	4	49.42
Industrial	2	39.47
Healthcare and social infrastructure	1	11.11
Total	7	100.00

Property data

Number of properties	7
Total number of tenants	14
WALE (by income)#	7.1 yrs
Occupancy rate (by income)	87.02%

Excludes assets under development

Top 5 tenants (by income)

Tenant	%
Flavour Makers Australia	31.36
Flinders Ports	13.24
The University of Queensland	7.16
Logic Plus	7.04
Construction Sciences	4.93
Total	63.73

Valuations

Valuations during the quarter	0
Change in total direct property book value	1.48%
Change in book value of the properties revalued	0.00%

* Change in book value over the quarter includes revaluation impacts along with capital expenditure and other minor variations but excludes acquisitions and disposals.

Direct Property Assets as at 31 December 2023

Property Details			Tenancy Details				Valuation Details			
Address	Note	Lettable Area (sqm)	Major Tenant	Number of Tenants	Occupancy Rate (% by income)	WALE (years by income)	Current Valuation ($m)	Valuation Date	Capitalisation Rate (%)	Book Value ($m)
Office										
70 Light Square, Adelaide, SA	-	3,267	Logic Plus	5	73.5	1.4	17.35	Jun-23	6.00	17.74
296 Vincent St., Port Adelaide, SA	-	3,537	Flinders Ports	3	100.0	4.1	14.25	Jun-23	6.25	14.33
17 Byres St, Newstead	-	1,326	Construction Sciences	2	69.4	<1	10.00	Jun-23	6.00	11.50
134 King Street, Newcastle, NSW	5	1,879	N/A	0	-	-	7.50	Jun-23	N/A	7.60
Sub total				10			49.10			**51.17**
Industrial										
223-227 Governor Road, Braeside VIC	-	10,573	Flavour Makers Australia	1	100.0	17.7	28.30	Jun-23	4.75	28.36
91-97 Woodlands Drive, Braeside, VIC	-	4,877	Flavour Makers Australia	1	100.0	17.7	12.50	Aug-23	5.50	12.50
Sub total				2			40.80			**40.86**
Healthcare and social infrastructure										
Edith Cavell Building	-	1,573	The University of Queensland	2	80.0	3.3	11.50	Aug-23	6.00	11.50
Sub total				2			11.50			**11.50**
Total (T) / Weighted Average (A)				**14 (T)**	**87.0 (A)**	**7.1 (A)**	**101.4 (T)**		**5.59 (A)**	**103.53 (T)**

Notes

1. Valuation Policy - Regular valuation of underlying property assets is an important aspect of managing the Fund. Valuations are conducted by qualified independent valuers in accordance with industry standards. We also have a policy of generally obtaining independent valuations on Fund direct properties each year and, for assets under development, within an 18-month period. Additionally, as part of our active management approach, we may test asset values on market. At times we may enter arrangements at arm's length with third parties which may impact the value of assets within the portfolio including, but not limited to, put and call options in respect of all or part of an asset within the portfolio. If the value of an asset is impacted in this way, the value may replace the last independent valuation obtained.
2. Weighted Average Lease Expiry (WALE) by base rental income. Vacancies are valued at market income. Assets under development excluded.
3. A market capitalisation rate is the rate, expressed as a percentage, that reflects the likely yield a property will generate over the medium term. It has regard to a property's unique characteristics and is a measure of the property's risk/return profile with higher rates reflecting higher risk and its function is to convert a property's income into value. The market capitalisation rate is assessed by the independent valuer by dividing the stabilised net property income of the property or a portfolio of properties by the assessed valuation of the property or portfolio, excluding costs of acquisitions and fees.
4. Total number of tenants represents unique tenants. The sum of all individual property tenant numbers may differ to the total, as some tenants have multiple properties, and these are not double counted in the total.
5. Property held for redevelopment.

Contact us

australianunity.com.au/wealth

australianunitywealth@unitregistry.com.au

Investor Services

T 1300 997 774 F 1300 856 685

Adviser Services

T 1300 997 774 F 1300 856 685

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